

**OSCEOLA TOWNSHIP**  
**HOUGHTON COUNTY, MICHIGAN**  
**FINANCIAL STATEMENTS**  
**WITH SUPPLEMENTAL INFORMATION**

**March 31, 2008**

**OSCEOLA TOWNSHIP**

**MARCH 31, 2008**

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**ELECTED OFFICIALS**

Supervisor .....	Steven Karpiak
Clerk .....	Mary Ann Willmer
Treasurer .....	Shirley Bleise
Trustee .....	Robert Mattfolk
Trustee .....	James Laplander

## TABLE OF CONTENTS

	<u>Page</u>
<b>INDEPENDENT AUDITOR'S REPORT:</b> .....	4
<b>BASIC FINANCIAL STATEMENTS:</b>	
Statement of Net Assets .....	5
Statement of Activities .....	6
<u>Governmental Funds:</u>	
Balance Sheet .....	7
Statement of Revenues, Expenditures, and Changes in Fund Balances .....	8
<u>Proprietary Funds</u>	
Balance Sheet .....	9
Statement of Revenues, Expenditures, and Changes in Fund Balances .....	10
Statement of Cash Flows .....	11
Fiduciary Fund - Statement of Fiduciary Net Assets .....	12
Notes to Financial Statements .....	13
<b>REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION:</b>	
<u>Budgetary Comparison Schedules:</u>	
General Fund .....	30
Fire Fund .....	31
<b>SUPPLEMENTAL FINANCIAL INFORMATION:</b>	
<u>General Fund:</u>	
Detailed Schedules of Revenues, Expenditures, and Changes in Fund Balance .....	33
<u>Special Revenue Funds:</u>	
Combining Balance Sheets .....	36
Combining Schedules of Revenues, Expenditures, and Changes in Fund Balance .....	37
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards .....	38



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## INDEPENDENT AUDITOR'S REPORT

Honorable Supervisor and Board of Trustees  
Osceola Township  
Dollar Bay, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Osceola Township as of and for the year then ended March 31, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Osceola Township as of March 31, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 25, 2008 on our consideration of Osceola Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Osceola Township has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township's basic financial statements. The supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

September 25, 2008

*Bruce A. Rukkila, CPA, PC*  
Certified Public Accountants

**OSCEOLA TOWNSHIP**  
**STATEMENT OF NET ASSETS**  
**March 31, 2008**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS:</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	\$ 218,394	\$ 5,802	\$ 224,196
Receivables	14,601	32,596	47,197
Prepaid expenses	44	-	44
Internal balances	1,563	(1,563)	-
Due from fiduciary fund	3,297	-	3,297
<b>TOTAL CURRENT ASSETS</b>	<u>237,899</u>	<u>36,835</u>	<u>274,734</u>
<b>NONCURRENT ASSETS:</b>			
Restricted cash	-	80,835	80,835
Capital assets	1,543,875	2,616,861	4,160,736
Less: accumulated depreciation	(421,923)	(803,722)	(1,225,645)
<b>TOTAL NONCURRENT ASSETS</b>	<u>1,121,952</u>	<u>1,893,974</u>	<u>3,015,926</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,359,851</u>	<u>\$ 1,930,809</u>	<u>\$ 3,290,660</u>
<b>LIABILITIES:</b>			
<b>CURRENT LIABILITIES:</b>			
Accounts payable and accrued expenses	\$ 11,850	\$ 4,377	\$ 16,227
Bonds payable, current maturities	13,827	16,000	29,827
<b>TOTAL CURRENT LIABILITIES</b>	<u>25,677</u>	<u>20,377</u>	<u>46,054</u>
<b>NONCURRENT LIABILITIES:</b>			
Bonds payable, less current maturities	36,777	969,000	1,005,777
Compensated absences	1,615	-	1,615
<b>TOTAL NONCURRENT LIABILITIES</b>	<u>38,392</u>	<u>969,000</u>	<u>1,007,392</u>
<b>TOTAL LIABILITIES</b>	<u>64,069</u>	<u>989,377</u>	<u>1,053,446</u>
<b>NET ASSETS:</b>			
Invested in capital assets, net of related debt	1,120,337	1,237,353	2,357,690
Contributed capital	-	575,786	575,786
Reserved	-	80,835	80,835
Unreserved	175,445	(952,542)	(777,097)
<b>TOTAL NET ASSETS</b>	<u>1,295,782</u>	<u>941,432</u>	<u>2,237,214</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 1,359,851</u>	<u>\$ 1,930,809</u>	<u>\$ 3,290,660</u>

The accompanying notes to financial statements are an integral part of this statement.

**OSCEOLA TOWNSHIP**  
**STATEMENT OF ACTIVITIES**  
**March 31, 2008**

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contribution	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
<b><u>FUNCTIONS/PROGRAMS</u></b>							
Primary government:							
Government activities:							
General government	\$ 157,476	\$ 10,523	\$ 3,000	\$ 12,500	\$ (131,453)	\$ -	\$ (131,453)
Public safety	61,332	3,500	1,513	-	(56,319)	-	(56,319)
Public works	9,563	-	-	-	(9,563)	-	(9,563)
Recreation and culture	8,838	-	-	-	(8,838)	-	(8,838)
Other	47,568	-	-	-	(47,568)	-	(47,568)
otal governmental activities	284,777	14,023	4,513	12,500	(253,741)	-	253,741
Business-type activities:							
Water	167,123	188,548	-	-	-	21,425	21,425
otal business-type activities	167,123	188,548	-	-	-	(21,425)	(21,425)
Total primary government	\$ 451,900	\$ 202,571	\$ 4,513	\$ 12,500	(253,741)	21,425	(232,316)

**General Revenues:**

Taxes			
Property taxes, levied for general operations	132,864	-	132,864
Other taxes	1,052	-	1,052
State shared revenue	147,815	-	147,815
Interest and investment earnings	3,532	2,020	5,552
Other	29,098	6,513	35,611
Total general revenues, transfers, and special iter	314,361	8,533	322,894
Change in Net Assets	60,620	29,958	90,578
Net Assets - Beginning	1,235,162	911,474	2,146,636
Net Assets - Ending	\$ 1,295,782	\$ 941,432	\$ 2,237,214

The accompanying notes to financial statements are an integral part of this statement.

**OSCEOLA TOWNSHIP**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**March 31, 2008**

	General Fund	Fire Protection Fund	Non-major Governmental Fund	Total Governmental Funds
<b>ASSETS:</b>				
<b>CURRENT ASSETS:</b>				
Cash and cash equivalents	\$ 218,394	\$ -	\$ -	\$ 218,394
Taxes receivable	3,673	8,103	2,825	14,601
Due from other funds	1,563	66,153	74,915	142,631
Due from fiduciary fund	3,297	-	-	3,297
Prepaid expense	44			
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 226,971</b>	<b>\$ 74,256</b>	<b>\$ 77,740</b>	<b>\$ 378,967</b>
<b>LIABILITIES:</b>				
<b>CURRENT LIABILITIES:</b>				
Accounts payable	\$ 9,867	\$ -	\$ -	\$ 9,867
Accrued expenses	1,983	-	-	1,983
Due to other funds	141,068	-	-	141,068
<b>TOTAL CURRENT LIABILITIES</b>	<b>152,918</b>	<b>-</b>	<b>-</b>	<b>152,918</b>
<b>FUND BALANCES:</b>				
Unreserved	74,053	74,256	77,740	226,049
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 226,971</b>	<b>\$ 74,256</b>	<b>\$ 77,740</b>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	1,121,952
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds.	(52,219)
Net assets of governmental activities	<u>\$ 1,295,782</u>

The accompanying notes to financial statements are an integral part of this statement.

**OSCEOLA TOWNSHIP**  
**GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**Year Ended March 31, 2008**

	General Fund	Fire Protection Fund	Other Non-major Governmental Fund	Total Governmental Funds
Revenues:				
Property taxes	\$ 33,962	\$ 72,781	\$ 26,121	\$ 132,864
Other taxes	372	-	680	1,052
State revenue	147,815	-	-	147,815
Grant revenue	3,000	1,513	-	4,513
Charges for services	10,523	3,500	-	14,023
Franchise fees	9,407	-	-	9,407
Interest	3,532	-	-	3,532
Contributions	12,500	-	-	12,500
Other revenue	19,665	26	-	19,691
Total revenues	<u>240,776</u>	<u>77,820</u>	<u>26,801</u>	<u>345,397</u>
Expenditures:				
General government	102,276	-	-	102,276
Public safety	3,845	57,487	-	61,332
Public works	-	-	19,247	19,247
Recreation and culture	25,291	-	-	25,291
Other	68,638	-	-	68,638
Total expenditures	<u>200,050</u>	<u>57,487</u>	<u>19,247</u>	<u>276,784</u>
Excess (deficiency) of revenue over expenditures	<u>40,726</u>	<u>20,333</u>	<u>7,554</u>	<u>68,613</u>
Net change in fund balance	<u>40,726</u>	<u>20,333</u>	<u>7,554</u>	<u>68,613</u>
Fund Balances - Beginning of Year	<u>33,327</u>	<u>53,923</u>	<u>70,186</u>	
Fund Balances - End of Year	<u>\$ 74,053</u>	<u>\$ 74,256</u>	<u>\$ 77,740</u>	

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds do not record depreciation and report capital outlays as expenditures.  
This amount represents depreciation.

(31,623)

Accrued expenses recorded in the statement of activities are not recorded as expenditures  
in the governmental funds until they are incurred.

2,560

Repayment of bond principal is an expenditure in the governmental funds, but not in  
the statement of activities (where it reduces long-term debt)

21,070

Change in net assets of governmental activities

\$ 60,620

The accompanying notes to financial statements are an integral part of this statement.



**OSCEOLA TOWNSHIP**  
**PROPRIETARY FUND**  
**BALANCE SHEET**  
Year Ended March 31, 2008

	Business-type Activities
	Water System
<b>ASSETS:</b>	
Current assets:	
Cash and cash equivalents	\$ 5,802
Accounts receivable	32,596
Total current assets	<u>38,398</u>
Restricted cash	<u>80,835</u>
Property, plant, and equipment	2,616,861
Accumulated depreciation & amortization	<u>(803,722)</u>
	<u>1,813,139</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 1,932,372</u></b>
<b>LIABILITIES:</b>	
Current liabilities:	
Accounts payable	\$ 4,329
Accrued expenses	48
Due to other funds	1,563
Current maturities on long term debt	16,000
Total current liabilities	<u>21,940</u>
Long-term liabilities:	
Bonds/note payable	<u>969,000</u>
<b>TOTAL LIABILITIES</b>	<b><u>990,940</u></b>
<b>FUND EQUITY:</b>	
Contributed capital	<u>575,786</u>
Retained earnings:	
Reserved	80,835
Unreserved	<u>284,811</u>
Total retained earnings	<u>365,646</u>
<b>TOTAL FUND EQUITY</b>	<b><u>941,432</u></b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b><u>\$ 1,932,372</u></b>

The accompanying notes to financial statements are an integral part of this statement.

**OSCEOLA TOWNSHIP**  
**PROPRIETARY FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN RETAINED EARNINGS**  
**Year Ended March 31, 2008**

	Business-type Activities Water System
OPERATING REVENUES:	
Sales and charges for services	\$ 185,248
Hydrant rental	3,300
Other revenue	<u>6,513</u>
TOTAL OPERATING REVENUES	<u>195,061</u>
EXPENSES:	
Salaries, wages, and fringe benefits	21,447
Supplies, materials, and other	1,066
Professional services	5,790
Repair and maintenance	14,237
Contract labor	1,296
Water sampling	688
Insurance	4,638
Utilities	11,564
Travel	2,306
Rental	1,500
Dues	2,658
Other services and support	990
Replacement expense	5,253
Capital outlay	6,303
Depreciation	<u>60,130</u>
TOTAL OPERATING EXPENSES	<u>139,866</u>
OPERATING INCOME (LOSS)	55,195
NON-OPERATING REVENUES (EXPENSES):	
Interest income	2,020
Interest expense	<u>(45,510)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(43,490)</u>
NET INCOME (LOSS)	11,705
RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR	<u>911,474</u>
ADJUSTMENTS TO FUND EQUITY	
Add depreciation on fixed assets acquired with new capital	<u>(18,253)</u>
RETAINED EARNINGS (DEFICIT), END OF YEAR	<u>\$ 941,432</u>

The accompanying notes to financial statements are an integral part of this statement.

**OSCEOLA TOWNSHIP**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**Year Ended March 31, 2008**

	<u>Water System</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 158,593
Payments to suppliers	(55,278)
Payments to employees	(21,430)
Other receipts (payments)	6,513
Net cash provided by operating activities	<u>88,398</u>
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchases of capital assets	(23,243)
Principal paid on capital debt	(15,000)
Interest paid on capital debt	(45,510)
Net cash (used) by capital and related financing activities	<u>(83,753)</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest and dividends	2,020
Net cash provided by investing activities	<u>2,020</u>
Net (decrease) in cash and cash equivalents	6,665
Balances -- beginning of the year	79,972
Balances -- end of the year	<u>\$ 86,637</u>
 <b>Reconciliation of operating income (loss) to net cash provided</b>	
(used) by operating activities:	
Operating income (loss)	\$ 55,195
Adjustments to reconcile operating income to net cash provided	
(used) by operating activities:	
Depreciation expense	60,130
Change in assets and liabilities	
Receivables, net	(29,955)
Accounts and other payables	3,011
Accrued Expenses	17
Net cash provided by operating activities	<u>\$ 88,398</u>

The accompanying notes to financial statements are an integral part of this statement.

**OSCEOLA TOWNSHIP**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**March 31, 2008**

	<u>Fiduciary Funds</u>
ASSETS:	
Cash	\$ 71,156
TOTAL ASSETS	<u>\$ 71,156</u>
LIABILITIES:	
Due to General Fund	\$ 3,297
Due to other governmental units	<u>67,859</u>
TOTAL LIABILITIES	<u>\$ 71,156</u>

Osceola Township is located in Houghton County, Michigan, and encompasses an area of 26.5 square miles. The Township operates under an elected Board of Trustees (5 members, including the Township Supervisor, Township Clerk, Township Treasurer, and two trustees) and provides services to a population of approximately 1,875 Township residents.

#### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Osceola Township, Michigan, conform to generally accepted accounting principles for local governmental units as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. The following is a summary of the more significant policies:

##### **REPORTING ENTITY**

Osceola Township is incorporated under the laws of the State of Michigan and operates under an elected council form of government.

There are no other governmental units within the Township that are controlled by, or dependent upon the Township's Board of Trustees. In accordance with NCGA Statements 3 and 7, control by, or dependence on the Township, was determined on the basis of appointment of the governing body or governing authority budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the Township, obligation of the Township to finance any deficits that may occur, surplus funds, and scope of public service.

##### **MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION**

**Government-Wide Financial Statements** - The statement of net assets and the statement of activities display information about the Township as a whole. These statements distinguish between activities that are governmental and those that are considered business-type. These statements exclude fiduciary activities such as trust and agency funds.

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting as further defined under proprietary funds below. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements of governmental funds.

The government-wide statement of activities presents a comparison between expenses and program revenues for the water fund which represents the business-type activity of the Township and for each governmental program. Expenses are those that are specifically associated with a service or program and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each function is self-financing or draws from the general revenues of the Township.

Internal activity is limited to interfund transfers which are eliminated to avoid "doubling up" revenues and expenses. Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue and capital projects and the restrictions on their net asset use.

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fund Financial Statements - Fund financial statements report detailed information about the Township. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The two major governmental funds are each presented in a single column on the governmental fund financial statements.

The following fund types are used by the Township:

Governmental Funds - The focus of the governmental funds' measurement (in the fund statements) is upon determination of the financial position (sources, uses, and balances of financial resources) rather than upon net income.

The following is a description of the major governmental funds of the Township:

General Fund - The General Fund is the government's primary operating fund. It is used to account for all financial resources of the general government, except those required to be accounted for in another fund.

Fire Protection Fund - The fund accounts for fire protection by special assessment under Act 33, 1951, as amended.

The Road Improvement Fund is a non-major governmental fund of the Township. The fund is used to account for property taxes restricted for road repair and maintenance.

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Water fund is the only enterprise fund of the Township.

Fiduciary Funds - Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support Township programs. The agency fund is custodial in nature and does not present results of operations or have a measurement focus. Fiduciary funds are not included in the government-wide statements.

The Tax Collection Fund is a fiduciary fund. The fund accounts for collection and disbursement of property tax collections.

OSCEOLA TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2008

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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accrual Method - The government-wide financials statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is done.

Property taxes, state revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Township.

*Other Accounting Policies*

Cash and Cash Equivalents - The Township's cash and cash equivalents include checking, money market, certificates of deposits, and savings accounts.

The Township reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and No. 40, Deposits and Investment Risk Disclosures. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the Township to invest in U.S. government obligations, certificates of deposit, commercial paper, repurchase agreements, bankers acceptances, and with some restrictions, mutual funds. An Attorney General's opinion states that public funds may not be deposited in financial institutions located in states other than Michigan. The Township does have an investment policy that meets state statutory regulations.

Property Taxes - Property taxes are levied on December 1. The Township collects its own property taxes until February 28, at which time collection is turned over to Houghton County for collection.

For the year ended March 31, 2008, the Township levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Purpose</u>	<u>Mills</u>
General	Operating	1.2433
Road	Improvements	0.9563

OSCEOLA TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2008

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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Special Assessment - The Township established three special assessment districts for fire protection service. Within each district, costs are assessed to each parcel of property that benefits from fire protection service. The special assessments are billed on the property tax bills.

For the year ended March 31, 2008, the Township imposed the following special assessments:

Special Assessment District	Mills
Precinct 1 - Tamarack City	5.1
Precinct 2 - Dollar Bay	2.1
Precinct 4 - Osceola and Tamarack	1.8

Restricted assets - Certain cash accounts are classified as restricted assets on the balance sheet because their use is limited.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." All receivables, including property taxes receivable, are shown net of allowance for uncollectibles.

Inventory - The Township utilizes the purchase method of recording inventories of materials and supplies. Under the purchase method, inventories are recorded as expenditures when they are purchased.

Encumbrances - Encumbrances are defined as commitments related to unperformed contracts for goods and services. The Township does not record encumbrances in the normal course of operating its accounting system and none are recorded in the accompanying financial statements

Capital Assets - Capital assets, which include land, buildings, equipment, water/sewer improvements, and vehicles are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$3,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair & maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Vehicles	5-10 years
Furniture and other equipment	5-10 years

Fund Equity - The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. Unreserved retained earnings for proprietary funds represent the net assets available for future operations or distributions. Reserved fund balance for governmental funds represent that portion of fund equity which has been legally segregated for specific purposes and/or does not constitute current available spendable resources. Reserved retained earnings for proprietary funds represent the net assets that have been legally identified for specific purposes.



**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Contributed capital - The Township follows the policy of reducing contributed capital in the water fund for an amount equal to the yearly depreciation on assets acquired or constructed with such contributed capital. This policy is based on the premise that future replacement of these facilities will be funded by the users who benefit from the facilities and not current users through the current rate structure. At March 31, 2008, Federal, State and Local contributed capital totaled \$575,786 . The current year amortization is \$18,253.

Accrued Benefits - The liabilities for accrued benefits reported in the district-wide statements in the amount of \$1,615, consisted of sick leave balances.

Accrued sick time is payable upon termination of employment or retirement. Accrued vacation leave is not paid to employees upon termination of employment or retirement, thus there is not vested liability for unused vacation leave.

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**NOTE B - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**BUDGETARY DATA**

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. During February, the Township Clerk prepares a proposed budget for the General and Special Revenue Funds for the fiscal year commencing the following April 1 and submits the proposed budget to the Township Board of Trustees at the regular March meeting.
- b. The Township Board of Trustees reviews the budget, which includes proposed expenditures and the means of financing them.
- c. The budget, subsequent to approval by the Board of Trustees, is submitted to the Township annually, at which time public comment is invited and the final budget is formally adopted.
- d. The Board of Trustees reviews the budget during the fiscal year and makes amendments as it deems appropriate.
- e. Budget appropriations lapse at the end of the fiscal year.
- f. The annual budget for the Enterprise (Water) Fund is approved and submitted to the Farmers Home Administration in April of each year.

**OSCEOLA TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2008**

**NOTE B - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)**

Budgetary amounts reported herein are as originally adopted, or as amended by the Township Board throughout the operating year.

In accordance with the State of Michigan Budgeting and Accounting Act, the Township must adopt an annual operating budget for the General Fund.

In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. Violations, if any, for the general fund and fire protection fund are noted in the required supplementary information section.

**NOTE C - CASH AND INVESTMENTS**

Custodial Credit Risk - Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of March 31, 2008, \$119,788 of the Township's bank balance of \$408,250 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Township's name.

The Township will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Township does business.

At year-end, the Township's cash deposits (checking, savings and certificates of deposit)

	Governmental Activities	Enterprise Funds	Fiduciary Funds	Total Primary Government
Unrestricted cash	\$ 218,394	\$ 5,802	\$ 0	\$ 224,196
Restricted cash	0	80,835	71,156	151,991
Total cash and cash equivalents	<u>\$ 218,394</u>	<u>\$ 86,637</u>	<u>\$ 71,156</u>	<u>\$ 376,187</u>

**NOTE D - INTER-FUND RECEIVABLES AND PAYABLES**

The amounts of inter-fund receivables and payables at March 31, 2008 are as follows:

	Receivable		Payable
General	\$ 1,563	General	\$ 141,068
Fire Protection	66,153	Water	1,563
Road Improvement	74,915		
TOTAL	<u>\$ 142,631</u>	TOTAL	<u>\$ 142,631</u>

The Tax Collection Fund (Fiduciary Fund) has \$3,297 due to General Fund.

**OSCEOLA TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2008**

**NOTE E - RECEIVABLES**

The detail of receivables at March 31, 2008 are as follows:

Receivables	General	Fire	Road	Enterprise	Total Primary Government
Receivables	\$ 0	\$ 0	\$ 0	\$ 32,596	\$ 32,596
Taxes receivable	3,673	0	2,825	0	6,498
Special assessment	0	8,103	0	0	8,103
Total receivables	<u>\$ 3,673</u>	<u>\$ 8,103</u>	<u>\$ 2,825</u>	<u>\$ 32,596</u>	<u>\$ 47,197</u>

**NOTE F - CAPITAL ASSETS**

Capital asset activity of the Township's governmental activities was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 463,027	0	0	\$ 463,027
Capital assets being depreciated:				
Building and additions	530,881	0	0	530,881
Equipment and machinery	55,550	16,453	0	72,003
Infrastructure	84,922	9,684	0	94,606
Improvements	66,273	0	0	66,273
Office equipment	16,956	0	0	16,956
Vehicles	300,129	0	0	300,129
Subtotal	<u>1,054,711</u>	<u>26,137</u>	<u>0</u>	<u>1,080,848</u>
Accumulated depreciation:				
Building and additions	83,018	16,705	0	99,723
Equipment and machinery	7,400	4,849	0	12,249
Infrastructure	23,495	4,448	0	27,943
Improvements	63,900	1,498	0	65,398
Office equipment	11,387	1,598	0	12,985
Vehicles	174,963	28,662	0	146,301
Subtotal	<u>364,163</u>	<u>57,760</u>	<u>0</u>	<u>421,923</u>
Net capital assets being depreciated	<u>690,548</u>	<u>(31,623)</u>	<u>0</u>	<u>658,925</u>
Net capital assets	<u>\$ 1,153,575</u>	<u>\$ (31,623)</u>	<u>\$ 0</u>	<u>\$ 1,121,952</u>

Depreciation expense was charged to activities of the Township as follows:

Governmental activities	
General government	\$ 13,196
Fire protection	40,116
Road	4,448
Total governmental activities	<u>\$ 57,760</u>

**OSCEOLA TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2008**

**NOTE F - CAPITAL ASSETS (Continued)**

The property, plant, and equipment in Township business-type funds at March 31, 2008 are summarized as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 15,600	\$ 0	\$ 0	\$ 15,600
Capital assets being depreciated:				
Office equipment	8,239	0	0	8,239
Vehicles	10,200	0	0	10,200
Water system	2,450,784	23,243	0	2,474,027
Water system - Coast Guard	108,795	0	0	108,795
Subtotal	2,578,018	23,243	0	2,601,261
Accumulated depreciation:				
Office equipment	5,833	1,203	0	7,036
Vehicles	10,200	0	0	10,200
Water system	700,712	56,208	0	756,920
Water system - Coast Guard	26,846	2,720	0	29,566
Subtotal	743,591	60,131	0	803,722
Net capital assets being depreciated	1,834,427	(36,888)	0	1,797,539
Net capital assets	\$ 1,850,027	\$ (36,888)	\$ 0	\$ 1,813,139

**NOTE G - LONG-TERM DEBT**

**WATER SUPPLY SYSTEM REVENUE BONDS**

The Township of Osceola Water Supply System Revenue Bonds, dated May 5, 1981, in the amount of \$170,000 were purchased at par by the Farmers Home Administration. The bonds were issued pursuant to Ordinance No. 13, adopted by the Township on December 11, 1980, as amended. The bonds mature serially on January 1, of each year.

The Revenue bonds are self-liquidating and not a general obligation of the Township, but shall be payable solely from the revenues derived from the operation of the system. A statutory first lien has been created on these revenues.

Bonds maturing in the years 1992 to 2021, are subject to redemption prior to maturity, in inverse numerical order, at the option of the Township, on any interest payment date on or after January 1, 1991, at par and accrued interest.

The bonds mature as indicated below with interest at 5% per annum payable semi-annually on January 1, and July 1 of each year.

OSCEOLA TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2008

NOTE G - LONG-TERM DEBT (Continued)

<u>SCHEDULE OF WATER SUPPLY &amp; DISTRIBUTION SYSTEM REVENUE BONDS</u>				
March 31, 2008				
Fiscal Year Ending	July Interest	January Interest	Principal	Total
2008-2009	\$ 2,425	\$ 2,425	\$ 6,000	\$ 10,850
2009-2010	2,275	2,275	6,000	10,550
2010-2011	2,125	2,125	6,000	10,250
2011-2012	1,975	1,975	6,000	9,950
2012-2013	1,825	1,825	7,000	10,650
2013-2014	1,650	1,650	7,000	10,300
2014-2015	1,475	1,475	8,000	10,950
2015-2016	1,275	1,275	8,000	10,550
2016-2021	3,300	3,300	43,000	49,600
TOTAL	<u>\$ 18,325</u>	<u>\$ 18,325</u>	<u>\$ 97,000</u>	<u>\$ 133,650</u>

Water Supply System Junior Lien Revenue Bond, Series 2003A

Water Supply System Junior Lien Revenue Bond, Series 2003A was issued in 2003 in the amount of \$756,000 for the purpose of acquiring, constructing certain additions, renovations, expansion, and equipping improvements to the Township's water supply system. This bond is self-liquidating and is not a general obligation of the Township, but is payable both as to principal and interest solely from the revenues of the Water Supply System. The bond bears an interest rate not to exceed 4.5% per annum.

The bonds are subject to redemption prior to maturity, in inverse chronological order, at the option of the Township, on any interest payment date after October 1, 2006. The payment schedule for the bond is as follows:

<u>2003A SCHEDULE OF WATER SUPPLY SYSTEM REVENUE BONDS</u>				
March 31, 2008				
Fiscal Year	April Interest	April Principal	October Interest	Total
2008-2009	\$ 16,335	\$ 8,000	\$ 16,155	\$ 40,490
2009-2010	16,155	9,000	15,953	41,108
2010-2011	15,954	9,000	15,750	40,704
2011-2012	15,750	10,000	15,525	41,275
2012-2013	15,525	10,000	15,300	40,825
2013-2014	15,300	10,000	15,075	40,375
2014-2015	15,075	11,000	14,828	40,903
2015-2016	14,828	11,000	14,580	40,408
2016-2021	70,110	65,000	68,648	203,758
2021-2026	62,055	82,000	60,210	204,265
2026-2031	51,998	101,000	49,725	202,723
2031-2036	39,600	125,000	36,788	201,388
2036-2041	24,165	157,000	20,633	201,798
2041-2044	5,513	110,000	2,858	118,371
TOTAL	<u>\$ 378,363</u>	<u>\$ 718,000</u>	<u>\$ 362,028</u>	<u>\$ 1,458,391</u>

**OSCEOLA TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2008**

**NOTE G - LONG-TERM DEBT (Continued)**

Water Supply System Junior Lien Revenue Bond, Series 2003B

Water Supply System Junior Lien Revenue Bond, Series 2003B was issued in 2003 in the amount of \$179,000 for the purpose of acquiring, constructing certain additions, renovations, expansion, and equipping improvements to the Township's water supply system. This bond is self-liquidating and is not a general obligation of the Township, but is payable both as to principal and interest solely from the revenues of the Water Supply System. The bond bears an interest rate not to exceed 4.5% per annum.

The bonds are subject to redemption prior to maturity, in inverse chronological order, at the option of the Township, on any interest payment date after October 1, 2006. The payment schedule for the bond is as follows:

2003B SCHEDULE OF WATER SUPPLY  
SYSTEM REVENUE BONDS

March 31, 2008

Fiscal Year	April Interest	April Principal	October Interest	Total
2008-2009	\$ 3,870	\$ 2,000	\$ 3,825	\$ 9,695
2009-2010	3,825	2,000	3,780	9,605
2010-2011	3,780	2,000	3,735	9,515
2011-2012	3,735	2,000	3,690	9,425
2012-2013	3,690	2,000	3,645	9,335
2013-2014	3,645	2,000	3,600	9,245
2014-2015	3,600	3,000	3,533	10,133
2015-2016	3,533	3,000	3,465	9,998
2016-2021	16,650	15,000	16,313	47,963
2021-2026	14,738	20,000	14,288	49,026
2026-2031	12,353	24,000	11,813	48,166
2031-2036	9,338	31,000	8,640	48,978
2036-2041	5,603	37,000	4,770	47,373
2041-2044	1,215	25,000	606	26,821
<b>TOTAL</b>	<b>\$ 89,575</b>	<b>\$ 170,000</b>	<b>\$ 85,703</b>	<b>\$ 345,278</b>

OTHER LONG-TERM DEBT

The Township has several installment loans payable which are detailed below:

<u>Purpose of Loan</u>	<u>Date Of Issue</u>	<u>Original Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>3/31/08 Balance</u>
D.B Fire Truck	12/09/99	\$110,000	06/01/14	4.75%	\$34,131
T.C. Fire Truck	07/03/03	\$52,500	03/15/11	3.90%	\$16,474

OSCEOLA TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2008

NOTE G - LONG-TERM DEBT (Continued)

SCHEDULE OF D.B. FIRE TRUCK LOAN

March 31, 2008

Fiscal Year	December	June		Total
	Interest	Interest	Principal	
2008-2009	1,164	1,330	7,000	9,494
2009-2010	998	1,164	7,000	9,162
2010-2011	808	998	8,000	9,806
2011-2012	618	808	8,000	9,426
2013-2014	642	1,260	4,131	6,033
TOTAL	<u>\$ 4,230</u>	<u>\$ 5,560</u>	<u>\$ 34,131</u>	<u>\$ 43,921</u>

SCHEDULE OF T.C. FIRE TRUCK LOAN

March 31, 2008

Fiscal Year	Interest	Principal	Total
2008-2009	830	6,827	7,657
2009-2010	564	7,092	7,656
2010-2011	287	2,555	2,842
TOTAL	<u>\$ 1,682</u>	<u>\$ 16,474</u>	<u>\$ 18,155</u>

The following is a summary of the changes in long-term debt for the year ended March 31, 2008:

	Balance 39171	Additions	Reductions	Balance 39537	Current Portion
Governmental					
D.B. Fire Truck Loan	\$ 43,107	\$ 0	\$ 8,977	34,130	\$ 7,000
T.C. Fire Truck Loan	25,501	0	9,027	16,474	6,827
Enterprise					
Water Supply	102,000	0	5,000	97,000	6,000
2003A Water Bonds	726,000	0	8,000	718,000	8,000
2003B Water Bonds	172,000	0	2,000	170,000	2,000
	<u>\$ 1,068,608</u>	<u>\$ 0</u>	<u>\$ 33,004</u>	<u>\$ 1,035,604</u>	<u>\$ 29,827</u>

As of March 31, 2008, the aggregate maturities of long-term debt for the next five years are as follows:

Fiscal Year	Principal	Interest	Total
2008-2009	29,827	48,359	78,186
2009-2010	31,092	46,989	78,081
2010-2011	27,555	45,562	73,117
2011-2012	26,000	44,076	70,076
2012-2013	23,130	41,810	64,940
2013-2014	19,000	42,822	61,822
2014-2015	22,000	39,986	61,986
2015-2016	22,000	38,956	60,956
2016-2021	123,000	178,321	301,321
2021-2026	102,000	151,291	253,291
2026-2031	125,000	125,889	250,889
2031-2036	156,000	94,336	250,336
2036-2041	194,000	55,171	249,171
2041-2044	135,000	10,223	145,223
TOTAL	<u>\$ 1,035,604</u>	<u>\$ 963,791</u>	<u>\$ 1,999,395</u>

OSCEOLA TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2008

NOTE H - BOND PAYMENT AND RESERVE REQUIREMENTS

The ordinance authorizing issuance of the 1981 Water Supply System Revenue Bonds required that specific accounts be established and monies deposited as follows:

Bond Reserve Fund - Quarterly transfers are to be made in the sum of at least \$275 per quarter, until there is accumulated in such fund the aggregate sum of \$11,000.

Bond and Interest Redemption Fund - Quarterly transfers are to be made equal to  $\frac{1}{2}$  of the next interest payment due plus  $\frac{1}{4}$  of the next principal payment due.

The ordinance authorizing issuance of the 2003 Water Supply System Revenue Bonds required that specific accounts be established and monies deposited as follows:

Bond Reserve Fund - Quarterly transfers are to be made in the sum of at least \$1,282.50 per quarter, until there is accumulated in such fund the aggregate sum of \$51,300.

Bond and Interest Redemption Fund - Quarterly transfers are to be made equal to  $\frac{1}{2}$  of the next interest payment due plus  $\frac{1}{4}$  of the next principal payment due.

Repair, Replacement and Improvement Fund - Quarterly transfers are to be made in the sum of not less than \$3,642.50, less the amount, if any, deposited in the Bond Reserve Fund.

At March 31, 2008, the Township has established these restricted cash accounts, as required:

	Requirements	Amount Funded
1981 Bond Reserve Fund	\$ 11,000	\$ 11,000
1981 Bond & Interest Redemption Fund	2,713	0
2003 Bond Reserve Fund	26,933	26,933
2003 Bond & Interest Redemption Fund	30,430	15,098
2003 Repair, Replacement, and Improvement Fund	49,560	27,804
	<u>\$ 120,635</u>	<u>\$ 80,835</u>



**OSCEOLA TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2008**

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**NOTE I - DEFINED CONTRIBUTION PLAN**

The Township is a member of a Defined Contribution Pension Plan for Michigan Township Employees and provides pension benefits for all of its eligible employees through this plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Elected Township officials are eligible to participate. The Township policy requires contributions of \$80 per quarter for trustees and \$225 per quarter for Supervisor, Clerk, and Treasurer. Voluntary after-tax contributions may be made up to a maximum of 10% of annual compensation. Township contributions for each employee and interest allocated to the employee's account are fully vested. Amounts contributed voluntarily by the employee under the plan, plus any interest earnings, are fully vested at the time of the contribution or crediting of investment earnings. The Township made contributions totaling \$4,526.

**NOTE J - SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

The Township maintained one Enterprise Fund which provides water services to all residents. Segment information for the year ended March 31, 2006 is as follows:

Operating revenues	\$195,061
Depreciation	\$60,130
Operating income (loss)	\$55,195
Non-operating revenues (expenses)	\$(43,490)
Net income (loss)	\$11,705
Property, plant and equipment - additions	\$23,243
Net working capital (deficit)	\$16,458
Total assets	\$1,932,372
Long-term liabilities	\$969,000
Total equity	\$941,432

**NOTE K - JOINT VENTURES**

**TORCH LAKE AREA SEWAGE AUTHORITY**

On April 4, 1977, the Townships of Osceola, Schoolcraft, and Torch Lake, and the Village of Lake Linden contracted with the County of Houghton to construct a sewage disposal system. Funds for the construction of this facility were provided by grants from Federal and State agencies and issuance of bonds. Bonds totaling \$1,765,000 were issued in November of 1979. The County of Houghton serves as general obligor for payment of principal and interest on the bonds. On August 14, 1980 these municipalities established the Torch Lake Area Sewage Authority, which subsequently contracted with the County of Houghton to operate the System. On May 10, 1989, the County of Houghton and the four municipalities adopted an Amendment to the Contract for Acquisition, Financing, and Operation of this system retroactive to May 1, 1988. The amendment provides, among other things, for a uniform surcharge for all users of the system and a waiver of all provisions contained in the original agreement regarding the allocation of expenses on a proportional basis.

OSCEOLA TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2008

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NOTE K - JOINT VENTURES (Continued)

The final allocated project cost to the local units was as follows:

Village of Lake Linden	41.36%
Torch Lake Township	30.76
Osceola Township	16.71
Schoolcraft Township	11.17
TOTAL	<u>100.00%</u>

The articles of incorporation of the Torch Lake Area Sewage Authority provide for a Board of Trustees to be the governing body. The Board consists of nine members of which two are appointed by each of the above units and one member appointed by the County of Houghton.

The elements considered in the Township's determination that the Torch Lake Area Sewage Authority should not be included as a component unit of the Township are as follows:

1. Osceola Township is not responsible for the designation of the Authority's management.
2. The Township does not significantly influence operations.
3. The municipalities each appoint two of the nine members to the Authority's Board of Trustees.
4. The Township does not have significant fiscal management responsibilities. It does not have a right to receive surplus funds, but is responsible for guaranteeing certain debt along with the other municipalities.
5. The Township provides no direct on-going financial support to the Sewage Authority.
6. The Township does not hold title to the physical assets of the Authority.

A summary of the Authority's financial information for the year ended December 31, 2007 (most recent year compiled) shows the following:

Total assets	\$3,728,750
Total liabilities	\$12,552
Total equity	\$3,716,198
Total revenues	\$375,500
Total expenditures	\$357,983
Long-term debt	\$0

The Township does not account for its investment in the Authority using the Equity method, as required by Generally Accepted Accounting Principles.

OSCEOLA TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2008

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NOTE K - JOINT VENTURES (Continued)

NORTH HOUGHTON COUNTY WATER AND SEWER AUTHORITY

On April 14, 1983 the North Houghton County Water and Sewer Authority was formed by the Villages of Calumet and Laurium and the Townships of Calumet and Osceola for the purpose of constructing and making improvements to waste water collection, transmission, and treatment facilities serving residents of these municipalities. In 1989 the Authority acquired an existing sewage system from the Village of Laurium. The authority has entered into a consent decree with the Michigan Department of Natural Resources to improve the wastewater system. Federal funding totaling approximately \$7,467,660 was obtained to construct improvements necessary to comply with this agreement.

The articles of incorporation of the Authority provide for a Board of Trustees to be the governing body. The Board consists of seven members of which one member is appointed by Osceola Township.

The elements considered in the Township's determination that the North Houghton County Water & Sewage Authority should not be included as a component unit of the Township are as follows:

1. Osceola Township is not responsible for the designation of the Authority's management.
2. The Township does not significantly influence operations.
3. Osceola township appoints only one member to the Authority's Board of Trustees.
4. The Township does not have significant fiscal management responsibilities. It does not have a right to receive surplus funds, but is responsible for guaranteeing certain debt along with the other municipalities.
5. The Township provides no direct on-going financial support to the Authority.
6. The Township does not hold title to the physical assets of the Authority.

A summary of the Authority's financial information for the for the year ended December 31, 2007 (most recent period audited) shows the following:

Total assets	\$15,159,105
Total liabilities	\$8,217,975
Total equity	\$6,941,130
Total revenues	\$1,043,475
Total expenditures	\$1,154,761
Long-term debt	\$8,180,000

The Township does not account for its investment in the Authority using the Equity method, as required by Generally Accepted Accounting Principles.

**OSCEOLA TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2008**

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**NOTE L - RISK MANAGEMENT**

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Township continues to carry commercial insurance for property, liability, wrongful acts, crime inland marine, and other risks of loss including worker's compensation and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE M - COMMITMENTS AND CONTINGENCIES**

In July 2007, the Township approved a proposal with DPM Assessing to have the Township reappraised in 2008 for a total project cost of \$123,375. Payment plan entailed a \$50,000 down payment and four annual payments of \$18,343.75 starting in fiscal year 2009. As of September 2008, the township has paid \$40,000 on the reappraisal project.

**REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION**

**OSCEOLA TOWNSHIP**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
For the Year Ended March 31, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>(GAAP Basis)</u>	<u>Final to Actual</u>
<b>REVENUES:</b>				
Current property taxes	\$ 28,000	\$ 28,000	\$ 33,962	\$ 5,962
Other taxes	3,025	3,000	372	(2,628)
State revenue	149,500	147,000	147,815	815
Grant revenue	-	-	3,000	3,000
Charges for services	15,000	10,525	10,523	(2)
Franchise fees	-	9,000	9,407	407
Interest	590	90	3,532	3,442
Contributions	-	-	12,500	12,500
Other revenue	15,300	18,200	19,665	1,465
<b>TOTAL REVENUE</b>	<u>211,415</u>	<u>215,815</u>	<u>240,776</u>	<u>24,961</u>
<b>EXPENDITURES:</b>				
General government				
Township board	15,900	15,700	14,027	1,673
Township supervisor	10,850	10,850	10,807	43
Clerk	10,450	10,500	10,462	38
Treasurer	12,150	12,250	12,000	250
Town hall	14,250	17,550	16,453	1,097
Assessor	16,210	16,210	16,210	-
Elections	2,170	6,080	5,908	172
Building and grounds	24,950	21,050	19,597	1,453
Public safety	-	3,875	3,845	30
Recreation	7,500	24,675	25,291	(616)
Other activites	75,000	71,700	65,450	6,250
<b>TOTAL EXPENDITURES</b>	<u>189,430</u>	<u>210,440</u>	<u>200,050</u>	<u>10,390</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ 21,985</u>	<u>\$ 5,375</u>	40,726	<u>\$ 14,571</u>
<b>FUND BALANCE - BEGINNING OF YEAR</b>			<u>33,327</u>	
<b>FUND BALANCE - END OF YEAR</b>			<u>\$ 74,053</u>	

**OSCEOLA TOWNSHIP**  
**BUDGETARY COMPARISON SCHEDULE - FIRE FUND**  
For the Year Ended March 31, 2008

	Budgeted Amounts		Actual (GAAP Basis)	Variance Final to Actual
	Original	Final		
REVENUES:				
Current property taxes	\$ 69,901	\$ 69,901	\$ 72,781	\$ 2,880
Other taxes	-	-	-	-
Grant revenue	-	-	1,513	1,513
Charges for services	3,500	3,500	3,500	-
Fire protection	-	-	-	-
Other revenue	-	-	26	26
<b>TOTAL REVENUE</b>	<b>73,401</b>	<b>73,401</b>	<b>77,820</b>	<b>4,419</b>
EXPENDITURES:				
Operating supplies	3,500	3,500	3,959	(459)
Other supplies	200	200	178	22
Advertising	-	-	100	(100)
Alert and paging	800	800	1,037	(237)
Training	800	800	234	566
Utilities	9,100	9,100	7,642	1,458
Communication	970	970	2,742	(1,772)
Insurance	12,000	12,000	9,935	2,065
Equipment	1,000	1,000	467	533
Miscellaneous	5,080	5,080	121	4,959
Repair and maintenance	900	900	526	374
Hydrant expense	5,800	5,800	4,549	1,251
Truck expense	4,500	4,500	2,839	1,661
Capital outlay	3,000	3,000	2,347	653
Interest	-	-	2,808	(2,808)
Loan payments	22,000	22,000	18,003	3,997
<b>TOTAL EXPENDITURES</b>	<b>69,650</b>	<b>69,650</b>	<b>57,487</b>	<b>12,163</b>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 3,751</u>	<u>\$ 3,751</u>	20,333	<u>\$ (7,744)</u>
FUND BALANCE - BEGINNING OF YEAR			<u>53,923</u>	
FUND BALANCE - END OF YEAR			<u>\$ 74,256</u>	

**SUPPLEMENTAL FINANCIAL INFORMATION**



**OSCEOLA TOWNSHIP**  
**GENERAL FUND**  
**DETAILED SCHEDULE OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE**  
**Year Ended March 31, 2008**

	<u>2008</u>
REVENUES:	
Property tax	\$ 33,962
Other tax	372
State revenues	147,815
Grants	3,000
Contributions	12,500
Interest	3,532
Other charges	9,100
Franchise fees	9,407
Administration fees	10,523
Reimbursements	7,248
Miscellaneous	<u>3,317</u>
TOTAL REVENUES	<u>240,776</u>
EXPENDITURES:	
ASSESSOR:	
Salaries	<u>16,210</u>
Total assessor	<u>16,210</u>
SUPERVISOR:	
Salaries	9,600
Payroll taxes	734
Travel expenses	<u>473</u>
Total supervisor	<u>10,807</u>
CLERK:	
Salaries	9,600
Payroll taxes	734
Office supplies	41
Travel expenses	<u>87</u>
Total clerk	<u>10,462</u>
TREASURER:	
Salaries	11,100
Payroll taxes	849
Travel expenses	<u>51</u>
Total treasurer	<u>12,000</u>

**OSCEOLA TOWNSHIP**  
**GENERAL FUND**  
**DETAILED SCHEDULE OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE**

(Continued)

Year Ended March 31, 2008

	<u>2008</u>
<b>TOWNSHIP BOARD:</b>	
Salaries	8,367
Payroll taxes	636
Fringe benefits	4,526
Travel expenses	106
Other service & support	<u>392</u>
Total township board	<u>14,027</u>
 <b>TOWN HALL:</b>	
Operating supplies	8,023
Rent	203
Utilities	4,936
Principal payments	3,066
Interest expense	122
Other service and support	<u>103</u>
Total town hall	<u>16,453</u>
 <b>ELECTIONS:</b>	
Salaries	3,279
Payroll taxes	83
Office supplies	2,102
Travel expense	129
Other service and support	<u>315</u>
Total elections	<u>5,908</u>
 <b>MAINTENANCE BUILDING:</b>	
Salaries	5,649
Payroll taxes	1,657
Operating supplies	343
Contract services	9,049
Repairs and maintenance	2,627
Capital outlay	<u>272</u>
Total maintenance building	<u>19,597</u>
 <b>FIRE PROTECTION:</b>	
Operating supplies	3,600
Utilities	<u>245</u>
Total fire protection	<u>3,845</u>

**OSCEOLA TOWNSHIP**  
**GENERAL FUND**  
**DETAILED SCHEDULE OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE**  
(Continued)  
Year Ended March 31, 2008

	<u>2008</u>
OTHER ACTIVITIES:	
Insurance	7,402
Communication	2,135
Membership dues	1,108
Printing and publishing	611
Professional services	5,875
Parks & recreation projects	25,291
Board of review	1,395
Street lights	31,264
Capital outlay	3,330
Other service and support	<u>12,330</u>
Total other activities	<u>90,741</u>
 TOTAL EXPENDITURES	 <u>200,050</u>
 EXCESS REVENUES (EXPENDITURES)	 <u>40,726</u>
 FUND BALANCE (DEFICIT), BEGINNING OF YEAR	 <u>33,327</u>
 FUND BALANCE (DEFICIT), END OF YEAR	 <u>\$ 74,053</u>

**OSCEOLA TOWNSHIP**  
**SPECIAL REVENUE FUNDS**  
**COMBINING BALANCE SHEET**  
 March 31, 2008

	<u>Fire Protection</u>	<u>Road Improvement</u>	<u>Totals (Memorandum Only)</u>
ASSETS:			
Taxes receivable	\$ 8,103	\$ 2,825	\$ 10,928
Due from other funds	<u>66,153</u>	<u>74,915</u>	<u>141,068</u>
 TOTAL ASSETS	 <u>\$ 74,256</u>	 <u>\$ 77,740</u>	 <u>\$ 151,996</u>
 LIABILITIES:			
 FUND EQUITY:			
Fund balance	\$ <u>74,256</u>	\$ <u>77,740</u>	\$ <u>151,996</u>
 TOTAL LIABILITIES AND FUND EQUITY	 <u>\$ 74,256</u>	 <u>\$ 77,740</u>	 <u>\$ 151,996</u>

**OSCEOLA TOWNSHIP**  
**SPECIAL REVENUE FUNDS**  
**COMBINING SCHEDULES OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE**  
**Year Ended March 31, 2008**

	<u>Fire</u> <u>Protection</u>	<u>Road</u> <u>Improvement</u>	<u>Totals</u> <u>(Memorandum</u> <u>Only)</u>
REVENUES:			
Taxes	\$ 72,781	\$ 26,801	\$ 99,582
Local	3,500	-	3,500
Grants	1,513	-	1,513
Other	<u>26</u>	<u>-</u>	<u>26</u>
TOTAL REVENUES	<u>77,820</u>	<u>26,801</u>	<u>104,621</u>
EXPENDITURES:			
Operating supplies	3,959	5,940	9,899
Other supplies	178	-	178
Advertising	100	-	100
Alert & paging	1,037	-	1,037
Training	234	-	234
Utilities	7,642	-	7,642
Communication	2,742	-	2,742
Insurance	9,935	-	9,935
Equipment	467	-	467
Miscellaneous	121	-	121
Repair & maintenance	526	3,623	4,149
Hydrant expense	4,549	-	4,549
Truck expense	2,839	-	2,839
Capital outlay	2,347	9,684	12,031
Interest	2,808	-	2,808
Loan payments	<u>18,003</u>	<u>-</u>	<u>18,003</u>
TOTAL EXPENDITURES	<u>57,487</u>	<u>19,247</u>	<u>76,734</u>
EXCESS REVENUES (EXPENDITURES)	20,333	7,554	27,887
FUND BALANCE (DEFICIT), BEGINNING OF YEAR	<u>53,923</u>	<u>70,186</u>	<u>124,109</u>
FUND BALANCE, END OF YEAR	<u>\$ 74,256</u>	<u>\$ 77,740</u>	<u>\$ 151,996</u>



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

Honorable Supervisor and Board of Trustees  
Osceola Township  
Dollar Bay, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Osceola Township as of and for the year then ended March 31, 2008 which collectively comprise the Township's basic financial statements and have issued our report thereon dated September 25, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Township's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Township's financial statements is more than inconsequential and will not be prevented or detected by the Township's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as item 2008-1 through 2008-5 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Osceola Township's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

### Compliance

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2008-1 through 2008-5.

We noted certain matters that we reported to management of Osceola Township in a separate letter dated September 25, 2008.

Osceola Township's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Osceola Township's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Township Board, others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

*Bruce A. Rukkila, CPA, PC*

Certified Public Accountants

September 25, 2008

**OSCEOLA TOWNSHIP**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For the Year Ended March 31, 2008**

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**2008-1 – Preparation of Financial Statements in Accordance with GAAP**

Criteria: New Statements on Auditing Standards (SAS) issued by the American Institute of Certified Public Accountants have clarified management's responsibilities for establishing a system of internal control. It is now considered a significant deficiency in internal control when a governmental entity relies upon its external auditors a part of its internal control including preparing year end financial statements in conformity with generally accepted accounting principles.

Condition: As is the case with many small entities, Osceola Township has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, Osceola Township's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the internal controls.

Cause: Due to the lack of knowledge, expertise and education relative to preparing GAAP financial statements possessed by the Township personnel, management has made the decision that it is in their best interest to out source the preparation of its annual financial statements to the auditors rather than incur the time and expense of obtaining the necessary training and expertise required for Osceola Township to perform this task internally.

Effect: This is considered a significant deficiency because the Township does not have staff or an independent advisor qualified to ensure the external auditor's work complies with all required standards.

View of Responsible Officials: To address this - the Township could either improve the Clerk or Treasurer's knowledge base through continuing education or hire a CPA independent of its audit firm to review the annual report. The Township believes that from a cost-benefit basis, neither of these solutions make sense. We concur with this decision.

**2008-2 - Segregation of Duties**

Criteria: As stated in the *Accounting Procedures Manual for Local Units of Government in Michigan*, the functions of authorizations, record keeping, and custody of assets should be segregated where possible.

Cause, Condition, and Effect: Limited staff size creates instances in which conflicting duties are performed by one individual. The Village relies on its Clerk/Treasurer for its general ledger accounting functions.

View of Responsible Officials: The Township understands it needs to be aware of this situation and maintain oversight of its financial records.



**OSCEOLA TOWNSHIP**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For the Year Ended March 31, 2008**

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**2008-3 – Adjustments Proposed by the Auditor**

Criteria: The Township is responsible for the reconciliation of all general ledger accounts to their proper underlying balances for the purpose of creating a reasonably adjusted trial balance, from which the basic financial statements are derived.

Condition: During the audit, we proposed several adjustments to the accounting records.

Cause: Lack of accounting knowledge is responsible for the unrecorded entries.

Effect: We are pleased to assist in adjusting the Township's general ledger, but are also required to communicate our part in completing the Township's accounting records. A number of these journal entries are related to property taxes, intergovernmental activities, accounts payable, accounts receivable, and items required for the full-accrual presentation of the government-wide financial statements.

View of Responsible Officials: The Township will ensure all general ledger accounts are reconciled on a timely basis with review and approval by the Supervisor.

**2008-4 – Budget**

Criteria: According to the *Uniform Budgeting Act, P.A. 621 of 1978*, the State of Michigan requires the Township to adopt a budget for all funds except for trust or agency, internal services, enterprise, debt service, or capital project funds.

Condition: During the year ended March 31, 2008, the Township did not formally adopted a Fire Protection Budget and a budget for the Road Improvement Fund was not prepared and approved.

Cause: Lack of accounting knowledge regarding budget requirements.

Effect: No approval on an adopted budget for the above mentioned funds.

View of Responsible Officials: The Township will add budgets for the Fire Protection and Road Improvement funds in their budget process.

**OSCEOLA TOWNSHIP**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For the Year Ended March 31, 2008**

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**2008-5 – Capital Assets Records Maintained by the Auditor**

Criteria: Purchases, additions, disposals, and sale of assets must have prior approval from the appropriate officials. In addition, the financial statements must accurately report all capital assets and accumulated depreciation along with capital expenditures and depreciation expense.

Condition: The Township has relied on its external auditor to maintain and update capital assets for the Township.

Cause: Due to the lack of knowledge, expertise and education relative to computing depreciation, management has made the decision that it is in their best interest to have their external auditor maintain fixed assets and compute depreciation rather than incur the time and expense of obtaining the necessary training and expertise required for Osceola Township to perform this task internally.

Effect: Township has relied on external auditor to updated fixed asset listings for any new acquisitions or disposals and updating depreciation in conformity with policies set by the Township.

In addition, there have been conflicting views on who should provide certain information regarding capital assets.

View of Responsible Officials: A copy of the capital asset information will be provided to the Township, which will allow the Township to assume this responsibility in the future.



Bruce A Rukkila, CPA, PC



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September 25, 2008

Honorable Supervisor and Board of Trustees  
Osceola Township  
Dollar Bay, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Osceola Township for the year ended March 31, 2008, and have issued our report thereon dated September 25, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated May 7, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material aspects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we consideration of internal control of Osceola Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of Osceola Township's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Audit Findings

Qualitative Aspects of Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Osceola Township are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended March 31, 2008. We noted no transactions entered into by Osceola Township during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements is current judgments. Management's estimate of the useful lives of fixed assets, used to calculate depreciation, is based on the estimated useful lives of certain classes of assets. We evaluated the key factors and assumptions used to develop the useful lives to determine that they are reasonable in relation to the financial statements taken as a whole.

Osceola Township

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated September 25, 2008.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Township's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Osceola Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Osceola Township Board and is not intended to be and should not be used for any other purpose.

It has been a pleasure to provide audit services to Osceola Township. Management was prepared for the audit, providing us with all supporting documents requested. Management was friendly, conscientious and very helpful.

We appreciate your business, thank you.

Very truly yours,

*Bruce A. Rukkila, CPA, PC*

Certified Public Accountants

In planning and performing our audit of the financial statements of Osceola Township, as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Osceola Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

## INTERNAL CONTROL COMMENTS AND RECOMMENDATIONS

### *2008-1 – Preparation of Financial Statements in Accordance with GAAP*

All entities are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of management. The preparation of financial statements in accordance with GAAP requires internal controls over both recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and reporting financial statements, including related footnotes.

As is the case with many small entities, Osceola Township has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, Osceola Township's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the internal controls.

Due to the lack of knowledge, expertise and education relative to preparing GAAP financial statements possessed by the finance department, management has made the decision that it is in their best interest to out source the preparation of its annual financial statements to the auditors rather than incur the time and expense of obtaining the necessary training and expertise required for Osceola Township to perform this task internally.

As a result of this condition, Osceola Township lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

Osceola Township has evaluated the benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Township to out source this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

### *2008-2 - Segregation of Duties*

The Township relies on its Treasurer and Clerk for its accounting functions. Because of this limited staff size, there are instances in which conflicting duties are performed by one individual. The Township needs to be aware of this situation, and maintain oversight of its financial records.

*2008-3 – Adjustments Proposed by the Auditor*

During our audit, we proposed several adjustments to the accounting records. The Township reviewed these and posted the adjustments to its general ledger. Because these entries were material in amount, this is considered a significant deficiency in internal control. We suggest the Township record accrual entries (recognizing revenues and expenditures in the proper period) and reconcile its payroll liability accounts in the future to correct this situation.

A material weakness is a significant deficiency or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses: 2008-01 and 2008-03

*2008-4 – Budget*

According to the *Uniform Budgeting Act, P.A. 621 of 1978*, the State of Michigan requires the Township to adopt a budget for all funds except for trust or agency, internal services, enterprise, debt service, or capital project funds. The Township did not formally adopt a Fire Protection budget and did not have a Road Improvement budget. We recommend budgets for these funds be formally adopted and approved in the minutes.

In addition, It is important, when adopting or amending the budget, to state the total revenues and expenditures approved and attach a signed copy of the budget to those minutes.

*2008-5 – Capital Assets Records Maintained by the Auditor*

The Township as relied on its external auditor to maintain and update capital asset records for the Township. This consists of updating fixed asset listing for any new acquisitions or disposals and updating depreciation in conformity with policies set by the Township.

A copy of this information will be provided to the Township, which will allow the Township to assume this responsibility in the future.

**ADDITIONAL COMMENTS AND RECOMMENDATIONS**

During our audit we became aware of opportunities for strengthening internal controls and operating efficiencies. The following items summarize our comments and suggestions regarding those matters.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any addition study of these matters, or to assist you in implementing the recommendations.

*Bond Reserve Requirements*

The ordinances authorizing issuance of Water Supply System Revenue Bonds requires that specific accounts be established with required funded amounts. It was noted during the audit, that the Township did not fund all of the accounts with the required balances. We recommend the accounts be funded with the required balances.

### *Bank Reconciliations*

General principles of internal control call for segregation of the functions of recording transactions, authorization of transactions and custody of assets.

We advise that someone independent of the cash receipts and depositing duties, trace the written receipts to the bank deposit and bank statement and also prepare the monthly bank reconciliations. At the minimum, a board member should review all bank statements, compare prior month's ending balance with opening balance, and confirm balances to the monthly financial reports. These procedures should be documented with the bank reconciliations and detailed within the Township's policies and procedures.

### *Expenditures*

In order to keep the Township's management informed regarding State of Michigan regulations, we present below a list of examples of illegal or unauthorized expenditures as defined in the Bulletin for Audits of Local Units of Government in Michigan as revised (Appendix H). We recommend that the Township's management familiarize themselves with this list in order to prevent the potential for illegal or unauthorized expenditures of the Township's funds.

- Contributions to churches, veterans, nonprofit organizations.
- Payment of funeral expense for a person injured on government property
- Donations to a private ambulance or EMS service not under contract with the governmental unit.
- Donations, including use of property or equipment to Little League, Scouts, Big Brothers/Sisters.
- Donations to community organizations.
- Expenses for private road constructions or maintenance.
- Office refreshments, picnics.
- Presents to officials and employees or retirement recognition events.
- Flowers to the sick or departed.
- Mileage of officials and employees to and from their residence to the Township.
- Extra compensation unless for part of the initial salary resolution or authorized under statutory procedures for an increase in salary.

### *Time Sheets*

It was observed during the course of the audit that time sheets are not being signed for approval. Time sheets serve as substantiation of wages charged to various areas and should be approved by the Township Supervisor.

### *Computer Backups*

We suggest backups for all software programs be done, at the minimum, weekly and kept offsite. It's important that the Township maintain reliable systems that include appropriate data backup and recovery processes.

### *Journal Entries*

Journal entries comprise part of the general ledger postings, along with cash receipts, accounts payable, and payroll transactions. Presently, there is no review of journal entries prepared by the clerk and treasurer. In order to enhance the internal controls in this area, we recommend that journal entries be approved either individually or in batches by a person independent of the preparer.

#### *Reference*

It was noted during the course of the audit that the Township does not refer to the *State of Michigan - Accounting Procedures Manual for Local Units of Government in Michigan* or the *Michigan Department of Treasury's Uniform Budget Manual* as sources of reference and information. As a result, the concept of internal controls is not entirely understood by everyone at the Township. A copy of these manuals will be provided to the Township and it can be found on the State of Michigan Treasury's web site <http://www.michigan.gov/treasury> at the Local Government Services/Accounting Information/Bulletins, Manuals & Forms. It is recommended that these reference material be reviewed and referred to in the Township's accounting procedures.

#### *Water Accounting Procedures*

It was noted during the course of the audit that it was difficult to obtain information regarding receivables. We recommend procedures be documented regarding receivables and that they be reviewed on a monthly basis and confirmed with accounting program.

#### *Budget Review*

Michigan law prohibits spending amounts in excess of appropriations (budgeted amounts). As noted in our audit report, there were instances of spending amounts greater than budgeted.

We recommend that the Council carefully review its actual revenue and expenditures to budgeted amounts at least quarterly. Amendments to the budget should be made after reviewing all financial information.

#### *Disbursement Documentation*

During the course of the audit, the staff was unable to locate records necessary to substantiate some transactions. We recommend that records relating to all disbursements be retained